Back Send to Printer

Buyers with limited credit history may qualify for prime loans

Anthem uses rent, utility and insurance payments to evaluate borrowers

Wednesday, November 08, 2006

Inman News

First American Corp. has compiled a directory of more than 200 loan officers who are using its Anthem suite of credit reporting applications to help home buyers with limited credit histories qualify for prime-grade mortgage loans.

First American's Anthem Lender Directory is designed to help real estate agents, community-based organizations and home buyers find lenders who are using "the latest credit evaluation techniques to deliver the best possible loans at the best possible prices," the company said in a press release.

According to First American's credit information subsidiary, First American CREDCO, 20 percent of Americans are "unscorable" using traditional credit bureau data. But they may qualify for prime-grade loans if an alternative payment history is used in the loan evaluation process.

Anthem augments traditional credit bureau data with rent, utilities, insurance and other types of payment histories to produce a more comprehensive view of a borrower's payment behavior, First American said. On a 30-year, $300,000 loan, a family that qualifies for a 6 percent interest rate will pay $600 less per month and save $220,000 over the life of a similar loan with a 9 percent interest rate, the company said.

"Often the only barrier keeping that family from the lower rate is a credit score derived from data that does not fully reflect the borrower's willingness and ability to repay the loan," said Landon V. Taylor, vice president of market development at First American, in a statement. "Lenders who use alternative credit solutions are helping lift this barrier and leveling the playing field for prospective home buyers with nontraditional banking, credit and spending patterns."

First American rolled out the Anthem directory at the National Association of Hispanic Real Estate Professionals convention in Las Vegas, along with new features in the application itself, including Spanish language credit reporting and disclosures, international credit data reporting, and automated individual tax identification number identification (ITIN) identification.

First American says Anthem meets mortgage loan underwriting and due diligence requirements of the U.S. Department of Housing and Urban Development (HUD), the Federal Housing Administration (FHA), Fannie Mae and Freddie Mac.

The company announced that the Neighborhood Housing Services of America is now using Anthem to help qualify "thin-credit/no-credit" borrowers for prime-grade mortgages.

***

Send tips or a Letter to the Editor to matt@inman.com or call (510) 658-9252, ext. 150.

Back Top Send to Printer

How Insurance Credit Scoring Models Really Work

A Review by TexasWatch of Credit Scoring Models Filed in Texas

Insurance companies claim they possess formulas that draw a cause-and-effect link between credit scores and driving risk or the likelihood that you will file a claim if hail damages your roof. Now that these formulas are available for public inspection, and a quick review raises serious questions about how the criteria can be tied to driving risk. Many criteria are contradictory, others penalize consumers who are simply using—not abusing—credit, and none are appropriate predictors of driving skill or risk.

The list below offers some examples of real credit scoring criteria used by some insurance companies to determine policyholder eligibility and rates for home and auto insurance. Various insurance companies use these criteria in varying weights and levels of importance.

Sample Credit Scoring Model Key	
+	Increases your credit score (favorable)
-	Decreases your credit score (unfavorable)
Increasing plus or minus signs indicate increasing magnitude	

Average number of months all accounts on file have been open		*You will be penalized until the average age of the accounts on your credit report reaches the arbitrary threshold chosen by your insurer.*
600 or more months	++	
400 to 599 months	+	
200 to 399 months	-	
0 to 199 months	--	
Number of accounts opened in the last year		*Newly opened accounts count against your insurance credit score—even if your payments are current. This criteria penalizes young credit holders, but also consumers who have recently moved.*
0 (no accounts opened)	+++	
1 to 2	+	
3 to 4	-	
5 to 7	--	
8 or more	---	

Age of oldest account in months 0 to 24 months 25 to 72 months 73 to 192 months 193 to 312 months 313 to 432 months 433 months or more	 --- -- - + ++ +++	*This is a double penalty against new accounts, but it can also raise rates for a homeowner who pays off a 30-year mortgage and closes his or her oldest account.*
Number of consumer initiated credit inquiries in last 2 years 0 (no inquiries in last 2 years) 1 2 3 4 5 6 or more	 +++ ++ + - - -- ---	*Consumers will take a hit every time they: get cell phone service, rent an apartment, shop for a mortgage, take out a car loan, apply for a credit card, take out a school loan, open a utility account, etc.*
Number of credit card accounts open 0 to 1 2 3 4 5 6 to 9 10 or more	 - ++ +++ ++ - -- ---	*Each different credit scoring model has a "magic number" for how many credit cards you should have to lessen your insurance risk. Two to four credit cards is optimal in most models. If you have more or less than the arbitrarily chosen number, your insurance score will decrease.*
Number of credit card accounts where balance is 75% or greater than limit 0 1 to 2 3 to 4 5 or more	 ++ + - --	*Penalizes people who actually use the credit extended to them—even if their accounts are current or paid off every month.*
Number of months since last account activity 0 (activity within last month) 1 month 2 months or more	 + - --	*Penalizes consumers who DON'T use the credit extended to them. If a consumer doesn't make a charge or make payments, he or she takes a hit on their auto insurance credit score.*

Number of installment loan accounts 0 1 2 or more	 + - --	*Installment loans are taken out from a bank and allow you to take possession of the property immediately while you pay back the loan in monthly installments (car loans for example). Having an open installment loan can hurt your credit score.*
Number of accounts in good standing with a balance 0 1 2 or more	 - + ++	*Clearly this factor can hurt people who have not paid their accounts as due, but it can also hurt people who choose not to carry balances on their accounts.*
Number of open retail store or sale finance accounts 0 1 2 or more	 + - --	*Insurance companies prefer bank loans. This criteria penalizes consumers who open accounts for furniture sales, department stores or other personal finance companies.*
Number of open automotive related accounts 0 1 2 or more	 + - --	*Penalizes consumers who gain financing through car dealers, auto parts stores, tire stores, or other automotive retailers.*
Number of open oil company accounts 0 1 2 or more	 - + +	*Penalizes consumers who do not have a gas company credit card.*
Number of public records (includes bankruptcies, liens, collections, etc.) 0 1 2 3 or more	 + - -- ---	*Not paying loans as agreed will hurt your credit score.*
Longest delinquency on an account No delinquencies 30 to 59 days late 60 to 89 days late 90 days or more	 + - -- ---	*Not paying loans as agreed will hurt your credit score.*